

CENTRAL VALLEY WATER RECLAMATION FACILITY

**FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORTS**

DECEMBER 31, 2006

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PINNOCK, ROBBINS, POSEY & RICHINS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Central Valley Water Reclamation Facility
Salt Lake City, Utah

We have audited the accompanying basic financial statements of Central Valley Water Reclamation Facility as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Central Valley Water Reclamation Facility as of December 31, 2006, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 14, 2007 on our consideration of Central Valley Water Reclamation Facility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion thereon.

We performed our audit to form an opinion on the basic financial statements taken as a whole. The supplemental schedules listed in the Table of Contents are presented for additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Pinnock, Robbins, Posey & Richins

March 14, 2007

136 East South Temple, Suite 2250, Salt Lake City, Utah 84111 801/533-0409 Fax 801/533-0414

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Central Valley Water Reclamation Facility's (the Facility) annual financial report presents our analysis of the Facility's financial performance during the year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes to enhance their understanding of the Facility's financial activities.

Financial Highlights:

- Central Valley saw its operating expenses (excluding depreciation) increase 7% during 2006. The vast majority of the increase was attributable to wages, benefits, maintenance and chemicals. For 2007, the board has approved a budget increase of 7%.
- During 2006, net assets increased \$2,693,272. This is primarily due to the construction of two secondary clarifiers. The board has elected not to fund depreciation on an on-going basis. The funds are provided on an as needed basis. The Facility has the capability to handle at least 75 million gallons per day.
- In 2001 Central Valley constructed a nine hole executive golf course. The primary function is for experimentation and application of wastewater for reuse. The course is open to the public, and a manager has been retained to run the facility. Since the facility has been opened, revenues have not paid for its operating costs, and as of December 31, 2006, \$100,000 had been advanced to cover these costs. It is anticipated that monies will need to be budgeted to help fund golf course operations in future years.
- The Facility booked approximately \$250,000 in accrued liabilities to account for sick leave as required by *Government Accounting Standards*. The Facility will begin putting aside funds for the liability in 2007.

Overview of Financial Report:

This discussion and analysis is intended to serve as an introduction to the Central Valley Water Reclamation Facility's financial statements. The Facility's financial statements comprise two components: 1) financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements and supplementary information. The MD&A represents management's analysis of the Facility's financial condition and performance.

The financial statements report information about the Facility using full accrual accounting methods as utilized by similar business activities in the private sector. They include a balance sheet; a statement of revenues, expenses and changes in net assets; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the Facility on a full accrual historical cost basis. While the balance sheet provides information about the nature and amount of resources and obligations at year end, the statement of revenues, expenses and changes in net assets presents the results of business activities over the course of the year and information as to how the net assets changed during the year. The statement of cash flows presents changes in cash and cash equivalents, resulting from operational capital and related financing, and investing activities. In other words, it provides information

regarding where the cash came from and how it was used, and the change in cash balance during the reporting period. The notes to the financial statements provide required disclosures and other information that are essential to the full understanding of material data provided in the statements. The notes present information about the Facility's accounting policies, significant account balances, obligations, commitments, contingencies and subsequent events, if any.

Financial Analysis:

To begin our analysis, a summary of the Facility's balance sheet is presented in the schedule below. This section will discuss and analyze significant differences between the years ended December 31, 2005 and 2006.

Central Valley Water Reclamation Facility Condensed Balance Sheet

	<u>2006</u>	<u>2005</u>
Current and Other Assets	\$ 33,717,756	\$ 27,692,203
Capital Assets	<u>105,968,975</u>	<u>110,173,934</u>
Total Assets	<u>\$ 139,686,731</u>	<u>\$ 137,866,137</u>
Current Liabilities	\$ 3,423,753	\$ 3,007,959
Other Liabilities	<u>29,373,057</u>	<u>30,661,529</u>
Total Liabilities	<u>32,796,810</u>	<u>33,669,488</u>
Net Assets Invested in Capital Assets, Net of Related Debt	76,683,975	79,673,934
Net Assets Restricted	—	1,147,642
Net Assets Unrestricted	<u>30,205,946</u>	<u>23,375,073</u>
Total Net Assets	<u>106,889,921</u>	<u>104,196,649</u>
Total Liabilities and Net Assets	<u>\$ 139,686,731</u>	<u>\$ 137,866,137</u>

The balance sheet includes all of the Facility's assets and liabilities, and net assets which are categorized as either invested in capital assets, net of related debt; restricted; or unrestricted. Net assets may serve as a useful indicator of a government's financial position. As can be seen from the schedule above, assets exceeded liabilities by \$106,889,921 at the end of 2006. The largest portion of the Facility's net assets, \$76,683,975 (71.7%), reflects its investment in capital assets, net of related debt, (e.g., land, buildings, sewer treatment facilities and equipment). The Facility uses these capital assets in its daily operations; consequently, they are not available for future spending.

While the balance sheet shows the change in financial position of net assets, the summary of the Facility's statements of revenues, expenses, and changes in net assets, provides information regarding the nature and source of these changes as seen in the following schedule. Net assets increased by \$2,693,272, mainly as a result of construction of two secondary clarifiers.

Central Valley Water Reclamation Facility
Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2006	2005
Operating Revenues	\$ 10,365,987	\$ 9,475,300
Non-operating Revenues	355,996	312,100
Total Revenues	<u>10,721,983</u>	<u>9,787,400</u>
Depreciation Expense	6,474,419	6,244,573
Other Operating Expense	10,728,280	9,790,615
Non-operating Expense	—	787,550
Total Expenses	<u>17,202,699</u>	<u>16,822,738</u>
(Loss) Before Member Contributions	(6,480,716)	(7,035,338)
Member Contributions and Loan Funding	9,173,988	1,962,566
Member Distributions	<u>—</u>	<u>(1,704,671)</u>
Changes in Net Assets	2,693,272	(6,777,443)
Net Assets - Beginning of Year	<u>104,196,649</u>	<u>110,974,092</u>
Net Assets - Ending of Year	<u>\$ 106,889,921</u>	<u>\$ 104,196,649</u>

Capital Contributions:

Capital contributions made by member entities are used to fund expansion of the plant or to renovate existing facilities.

Prior to implementing the Governmental Accounting Standards Board (GASB) pronouncements 33, 34 and 36-38, system assets received from the federal government and member entities were recorded as direct contributions to equity. GASB 33 defines these fees as non-operating revenues and requires reporting the amounts through the statement of revenues, expenses, and changes in net assets.

Capital Assets and Debt Administration:

Capital Assets

The Facility's investment in capital assets as of December 31, 2006, amounts to \$105,968,975 (net of accumulated depreciation). This investment in capital assets includes land, water reclamation facilities, a golf course, and equipment. The Facility's investment in capital assets decreased by \$4,204,959 for the current year.

Major capital asset events during the current fiscal year included the following:

- Construction began on two secondary clarifiers during 2005 and was completed during 2006.

**Capital Assets
Net of Depreciation**

	<u>2006</u>	<u>2005</u>
Land	\$ 10,678,531	\$ 10,678,531
Water reclamation facility	90,311,013	87,668,758
Golf course	3,730,748	3,987,620
Facility equipment	805,051	844,544
Office furniture and equipment	38,062	94,357
Construction in progress	<u>405,570</u>	<u>6,900,124</u>
 Total Capital Assets (Net of Depreciation)	 <u>\$ 105,968,975</u>	 <u>\$ 110,173,934</u>

Additional information on the Facility's capital assets can be found in Note 5.

Long-term Debt

At the end of the current fiscal year, the Facility had total debt of \$29,496,528. The debt represents bonds secured solely by specified revenue sources, as well as a note payable to a member entity. The Facility's debt decreased by \$1,246,527 during the current fiscal year.

Long-Term Debt

	<u>2006</u>	<u>2005</u>
Revenue bonds	\$ 29,285,000	\$ 30,500,000
Note payable – member	<u>211,528</u>	<u>243,055</u>
 Total	 <u>\$ 29,496,528</u>	 <u>\$ 30,743,055</u>

Additional information on the Facility's long-term debt can be found in Note 8.

Final Comments:

This financial report is designed to provide taxpayers, customers and creditors with a general overview of the Facility's finances and to demonstrate the Facility's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the Accounting Manager of the Central Valley Water Reclamation Facility, 800 West Central Valley Road, Salt Lake City, Utah 84119 or by phone (801)973-9100.

CENTRAL VALLEY WATER RECLAMATION FACILITY

BALANCE SHEET

DECEMBER 31, 2006

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 1,359,172
Receivables:	
Members	1,230,665
Unbilled - members	377,371
Other	1,789
Inventory - parts and supplies	434,074
Prepaid expenses	135,707
Notes receivable members, current portion	33,471
Due from members – bond interest	586,934
Due from members – bond principal, current portion	<u>1,340,000</u>

TOTAL CURRENT ASSETS 5,499,183

NOTES RECEIVABLE MEMBERS, LONG-TERM PORTION 178,057

DUE FROM MEMBERS – BOND PRINCIPAL, LONG-TERM PORTION 27,945,000

CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION) 105,968,975

OTHER ASSETS 95,516

TOTAL NONCURRENT ASSETS 134,187,548

TOTAL ASSETS \$ 139,686,731

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 794,676
Accrued vacation and sick leave	668,672
Accrued interest payable	586,934
Note payable - member, current portion	33,471
Bonds payable - current portion	<u>1,340,000</u>

TOTAL CURRENT LIABILITIES 3,423,753

NONCURRENT LIABILITIES:

Working capital advances from members	1,250,000
Note payable - member, long-term portion	178,057
Bonds payable, long-term portion	<u>27,945,000</u>

TOTAL NONCURRENT LIABILITIES 29,373,057

TOTAL LIABILITIES 32,796,810

NET ASSETS:

Invested in capital assets, net of related debt	76,683,975
Unrestricted	<u>30,205,946</u>

TOTAL NET ASSETS 106,889,921

TOTAL LIABILITIES AND NET ASSETS \$ 139,686,731

CENTRAL VALLEY WATER RECLAMATION FACILITY

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS**

YEAR ENDED DECEMBER 31, 2006

OPERATING REVENUES:	
Member service charges	\$ 10,085,931
Golf course	<u>280,056</u>
TOTAL OPERATING REVENUES	<u>10,365,987</u>
OPERATING EXPENSES:	
Administrative	1,436,305
Board	55,431
Engineering	425,208
Interceptor monitor	45,322
Lab	602,969
Plant operations and maintenance	7,410,925
Pretreatment - field	463,525
Golf course	288,595
Depreciation	<u>6,474,419</u>
TOTAL OPERATING EXPENSES	<u>17,202,699</u>
OPERATING (LOSS)	<u>(6,836,712)</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest income	353,754
Interest income -- members	889,792
Interest expense	(889,792)
Gain on disposal of assets	<u>2,242</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>355,996</u>
(LOSS) BEFORE MEMBER CONTRIBUTIONS	<u>(6,480,716)</u>
MEMBER CONTRIBUTIONS AND LOAN FUNDING	<u>9,173,988</u>
CHANGE IN NET ASSETS	<u>2,693,272</u>
NET ASSETS - BEGINNING OF YEAR	<u>104,196,649</u>
NET ASSETS - END OF YEAR	<u>\$ 106,889,921</u>

See accompanying notes to the financial statements.

CENTRAL VALLEY WATER RECLAMATION FACILITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from members and customers	\$10,087,082
Payments to suppliers	(4,363,880)
Payments to employees	<u>(6,029,901)</u>

**NET CASH PROVIDED BY (USED IN) OPERATING
ACTIVITIES**

(306,699)

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING
ACTIVITIES:**

Capital contributions from members	1,537,190
Proceeds from members – bond principal	1,300,000
Principal paid on capital debt	(1,300,000)
Acquisition and construction of capital assets	(2,321,196)
Proceeds from capital debt	85,000
Proceeds from members – bond interest	889,792
Interest paid on capital debt	(889,792)
Principal payments - note payable	(31,526)
Principal payments - notes receivable	31,526
Proceeds from sale of capital assets	<u>53,977</u>

**NET CASH PROVIDED BY (USED IN) CAPITAL AND
RELATED FINANCING ACTIVITIES**

(645,029)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received	<u>353,755</u>
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NET CASH PROVIDED BY INVESTING ACTIVITIES

353,755

NET INCREASE IN CASH AND CASH EQUIVALENTS

(597,973)

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR

1,957,145

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 1,359,172

CENTRAL VALLEY WATER RECLAMATION FACILITY

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2006

**RECONCILIATION OF OPERATING (LOSS) TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES:**

Operating (loss)	\$ (6,836,712)
Adjustments to reconcile net income to net cash provided (used in) operating activities:	
Depreciation and amortization	6,474,419
Receivable from members contributions	51,798
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Receivables	(330,702)
Inventory	(40,408)
Other assets	(1,805)
Prepaid expenses	3,752
Increase (decrease) in:	
Accounts payable	405,338
Accrued vacation and sick leave	251,088
Retention payable	<u>(283,467)</u>

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES \$ (306,699)

NONCASH INVESTING , CAPITAL, AND FINANCING ACTIVITIES:

Noncash member contributions \$ 7,636,798

TOTAL SECONDARY CLARIFIER COST ALLOCATED TO MEMBERS 7,636,798

LESS: AMOUNT FUNDED BY BONDS (7,585,000)

AMOUNT TO BE FUNDED BY FUTURE MEMBER CONTRIBUTIONS \$ 51,798

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Central Valley Water Reclamation Facility (the Facility) conform to generally accepted accounting principles as applicable to governmental units and are in accordance with established State of Utah legal restrictions as promulgated in the Fiscal Procedures Act. The following is a summary of the more significant policies.

a. Reporting Entity

The Facility's financial statements are prepared on a basis consistent with Internal Service Fund Reporting. Internal service funds are used to account for goods or services provided by a central service department or agency to other departments or agencies of the governmental unit, or to other unrelated governmental units, usually on a cost recovery basis. Accordingly, revenue and other financial resources of these funds should recover expenses, including depreciation and amortization. The Board of Directors has adopted a policy not to recover depreciation and amortization from the members who own the Facility. (See Note 5)

In determining the reporting entity, the Facility applied the criteria of Statement No. 14 of the Government Accounting Standards Board. The underlying concept of Statement No. 14 is that the financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria used for determining financial accountability is whether the facility's Board appoints a voting majority of the potential component units' (PCU) Board, whether the Board of the primary government can impose their will on the PCU and whether the PCU imposes a financial benefit or burden on the primary government. Central Valley Water Reclamation Facility applied these criteria and concludes there are no potential component units that should be included in the reporting entity, nor is Central Valley Water Reclamation Facility a component unit of any other entity.

b. Basis of Accounting

The Facility is an enterprise fund and uses the accrual basis of accounting. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing services to the general public on a continuing basis are financed or recovered primarily through user charges. Revenues are recognized when earned, and expenses are recognized when incurred.

The Facility applies all GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

c. Organization

The Facility was organized on October 17, 1978, pursuant to the Interlocal Co-operation Act of the State of Utah by five special purpose government entities and two cities. The purpose of the Facility is to plan, construct, and operate a regional sewage treatment facility for the benefit of the seven members. The seven members and their related ownership interests, as amended, are listed below:

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. *Organization (continued)*

	<u>Original Facility</u>	<u>New Expansion</u>	<u>Enhancements</u>	<u>Digesters</u>	<u>Secondaries</u>
Cottonwood Improvement District	19.569%	7.3215%	18.1191%	8.042%	7.1225%
Salt Lake City Suburban Sanitary District #1	25.622	23.6177	24.7780	20.080	22.6557
Granger-Hunter Improvement District	21.124	25.4755	20.2376	25.050	24.9005
Kearns Improvement District	5.978	24.0002	11.2654	28.435	25.7112
Murray City	8.892	6.8421	8.0168	6.280	6.6882
South Salt Lake City	6.120	2.5074	5.0980	1.378	2.5857
Taylorsville-Bennion Improvement District	<u>12.695</u>	<u>10.2356</u>	<u>12.4851</u>	<u>10.735</u>	<u>10.3362</u>
	<u>100.000%</u>	<u>100.0000%</u>	<u>100.0000%</u>	<u>100.000%</u>	<u>100.0000%</u>

The construction of the treatment facility plant has been funded by equity contributions from the seven members in proportion to their ownership interests, and by grants from the Environmental Protection Agency of the federal government and taxable sewer revenue bonds from the Utah State Division of Water Quality. Clean up costs of the site were provided by the Utah Bureau of Radiation Control and the Department of Energy. The Facility also contributed to the clean up costs. During October 2004, the Board of Directors determined that any future changes will be negotiated between the entities.

d. *Budgets*

The Facility prepares an annual budget on the modified cash basis of accounting, which is filed with the State of Utah. The member entities are given a monthly financial report, comparing budget to actual expenditures both on a current month and year to date basis.

e. *Inventory*

During construction of the Facility, contractors supplied spare parts essential to the Facility's operation. In addition, those parts, which are critical to plant operations, and parts requiring long lead times are being currently stocked by the Facility. As inventory is not for sale, repairs expense is the only operating item affected as the items are used. The parts inventory is stated at the lower of cost or market.

f. *Property, Plant, and Equipment*

Property, plant, and equipment are stated at cost. Depreciation of office furniture, equipment, and the Facility is computed using the straight-line method over an estimated useful life of five to forty years. Maintenance, repairs, and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. All construction and equipment purchases that are directly attributable to the treatment facility project are capitalized.

g. *Revenues*

Revenues are received from the member entities based on the inflow allocation formula for operations and maintenance and the applicable percentage for capital expenditures.

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Compensated Absences

Accumulated unpaid vacation amounts are accrued annually, not to exceed 270 hours. Sick pay amounts are charged as wages when used. Terminated employees are not paid for unused sick leave. Retired employees are paid twenty-five percent of their unused sick leave immediately upon retirement, and the remaining amount will be used to pay for the retiring employees' health insurance premiums, not to exceed 1,040 hours.

i. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Facility considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. DEPOSITS AND INVESTMENTS

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Facility follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Facility funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

a. Deposits

	<u>Bank Balances</u>	<u>Book Balances</u>
Cash on hand	\$ -	\$ 450
Cash on deposit	<u>29,182</u>	<u>(310,483)</u>
TOTAL	<u>\$ 29,182</u>	<u>\$ (310,033)</u>

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a bank failure, the Facility's deposits may not be returned to it. The Facility does not have a formal deposit policy for custodial credit risk. As of December 31, 2006, none of the Facility's bank balances were uninsured and uncollateralized.

b. Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the Facility and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. DEPOSITS AND INVESTMENTS (CONTINUED)

b. Investments (continued)

Statutes authorize the Facility to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury, including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "a" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses-net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of December 31, 2006, the Facility had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
State of Utah Public Treasurer's Investment Fund	\$ 802,635	\$ 802,635	\$ -	\$ -	\$ -
Repurchase Agreements	<u>866,570</u>	<u>866,570</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$1,669,205</u>	<u>\$1,669,205</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Facility's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Facility's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed. As of December 31, 2006, the Facility's investments in the State of Utah Public Treasurer's Investment Fund were unrated.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Facility's policy for reducing the risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5%-10% depending upon total dollar amount held in the portfolio.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Facility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Facility does not have a formal policy for custodial credit risk.

3. RECEIVABLES AND WORKING CAPITAL ADVANCES FROM MEMBERS

The receivables and working capital advances from the member entities at December 31, 2006 are comprised of the following:

	<u>Receivables</u>	<u>Working Capital Advances</u>
Cottonwood Improvement Facility	\$ 204,547	\$ 244,612
Salt Lake City Suburban Sanitary Facility #1	281,534	320,275
Granger-Hunter Improvement Facility	274,293	264,050
Kearns Improvement Facility	137,572	74,725
Murray City	104,602	111,150
South Salt Lake City	72,594	76,500
Taylorsville-Bennion Improvement Facility	155,523	158,688
	<u>\$ 1,230,665</u>	<u>\$ 1,250,000</u>

4. RETIREMENT PLAN

Central Valley Water Reclamation Facility sponsors a defined contribution retirement plan, which provides individual retirement funds for each eligible participating employee. Eligible employees consist of all permanent full-time employees. Benefits to retired employees are based on the value of the individual's account. The total contribution is 25% of the employee's annual salary. Contributions to the retirement plan amounted to \$947,052, \$892,236, and \$839,376 for 2006, 2005, and 2004, respectively. Covered salaries for the same period were \$3,788,208, \$3,568,944, and \$3,357,504, respectively.

5. CAPITAL ASSETS

During 1986, the Facility began operations. In enterprise accounting for governmental entities like the Facility, depreciation acts as a means to set aside funds for replacement of assets. The member entities have decided not to fund amounts that reduce the carrying value of capital assets via member service charges paid to the Facility. The offset is, in effect, a reduction of member capital contributions for the Facility in the equity section and reflects the need for later contributions.

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 10,678,531	\$ -	\$ -	\$ 10,678,531
Construction in progress	<u>6,900,124</u>	<u>405,570</u>	<u>(6,900,124)</u>	<u>405,570</u>
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	<u>17,578,655</u>	<u>405,570</u>	<u>(6,900,124)</u>	<u>11,084,101</u>
Capital assets, being depreciated:				
Water reclamation facility	164,312,018	8,532,275	-	172,844,293
Golf course	5,498,769	66,744	-	5,565,513
Facility equipment	3,314,273	216,730	(138,456)	3,392,547
Office furniture and equipment	<u>890,616</u>	<u>-</u>	<u>(149,759)</u>	<u>740,857</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>174,015,676</u>	<u>8,815,749</u>	<u>(288,215)</u>	<u>182,543,210</u>
Less accumulated depreciation for:				
Water reclamation facility	(76,643,260)	(5,890,020)	-	(82,533,280)
Golf course	(1,511,149)	(323,616)	-	(1,834,765)
Facility equipment	(2,469,729)	(242,503)	124,736	(2,587,496)
Office furniture and equipment	<u>(796,259)</u>	<u>(18,280)</u>	<u>111,744</u>	<u>(702,795)</u>
TOTAL ACCUMULATED DEPRECIATION	<u>(81,420,397)</u>	<u>(6,474,419)</u>	<u>236,480</u>	<u>(87,658,336)</u>
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	<u>92,595,279</u>	<u>2,341,330</u>	<u>(51,735)</u>	<u>94,884,874</u>
CAPITAL ASSETS, NET	<u>\$110,173,934</u>	<u>\$ 2,746,900</u>	<u>\$ (6,951,859)</u>	<u>\$105,968,975</u>

During 2006, the Facility disposed of equipment at a net gain of \$2,242. The Facility applied the gain to the member entities based on the member entities' ownership percentage.

6. MEMBER NOTE RECEIVABLE

Note receivable consists of amounts due from a member entity for its share of a land purchase in 2002. The note receivable bears interest at 6%, is payable in monthly installments, and has a term of ten years, beginning on September 1, 2002.

	<u>2006</u>
Total note receivable - member	\$ 211,528
Less current portion	<u>(33,471)</u>
Note receivable - member, long-term portion	<u>\$ 178,057</u>

Presented below is a summary of note receivable payment requirements to maturity by years:

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. MEMBER NOTE RECEIVABLE (CONTINUED)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 33,471	\$ 11,781	\$ 45,252
2008	35,535	9,717	45,252
2009	37,727	7,525	45,252
2010	40,054	5,198	45,252
2011	42,524	2,728	45,252
Thereafter	<u>22,217</u>	<u>390</u>	<u>22,607</u>
TOTAL	<u>\$ 211,528</u>	<u>\$ 37,339</u>	<u>\$ 248,867</u>

7. DUE FROM MEMBERS

Although the revenue bonds are in the name of the Facility, the members are responsible to fund debt service requirements over the life of the bonds. The amount distributed to members in 2005, \$23,000,000, is included as "due from members - bond principal" in the balance sheet of the Facility. The remaining bond funds drawn down as of December 31, 2006 (\$7,585,000) were used to fund a Facility project and were added to "due from members - bond principal" upon completion of the project. In addition, accrued interest payable on the bonds as of December 31, 2006 is \$586,934. This amount is included as "due from members - bond interest" in the balance sheet. The members' respective shares of the "due from members - bond principal" and "due from members - bond interest" are as follows:

	<u>Due from Members - Bond Principal</u>	<u>Due from Members - Bond Interest</u>
Cottonwood Improvement District	\$ 1,947,453	\$ 39,031
Salt Lake City Suburban Sanitary District #1	5,962,425	119,500
Granger-Hunter Improvement District	8,756,214	175,493
Kearns Improvement District	6,726,765	134,819
Murray City	2,896,287	58,047
South Salt Lake City	260,637	5,224
Taylorsville-Bennion Improvement District	<u>2,735,219</u>	<u>54,820</u>
	29,285,000	<u>\$ 586,934</u>
Less current portion	<u>(1,340,000)</u>	
LONG-TERM PORTION	<u>\$27,945,000</u>	

8. LONG-TERM DEBT

Revenue Bonds

The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. During 2005, the Facility issued taxable sewer revenue bonds totaling \$35,000,000 to fund the post-1993 ownership of the treatment facility. The members' respective shares of the bonds are as follows:

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. LONG-TERM DEBT (CONTINUED)

	<u>Percentage</u>	<u>Amount</u>
Cottonwood Improvement District	6.6468%	\$ 2,326,388
Salt Lake City Suburban Sanitary District #1	20.3639	7,127,327
Granger-Hunter Improvement District	29.9034	10,466,205
Kearns Improvement District	22.9679	8,038,751
Murray City	9.8914	3,462,000
South Salt Lake City	0.8865	310,284
Taylorsville-Bennion Improvement District	9.3401	3,269,045
	<u>100.0000%</u>	<u>\$35,000,000</u>

The Facility received advances from the bond proceeds to reimburse costs related to facility projects. As of December 31, 2006, \$30,585,000 of proceeds had been received by the Facility. Revenue bonds outstanding at December 31, 2006 were as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Sewer treatment facility	3.00%	\$29,285,000

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ 1,340,000	\$ 878,550	\$ 2,218,550
2008	1,350,000	838,350	2,188,350
2009	1,370,000	797,850	2,167,850
2010	1,450,000	756,750	2,206,750
2011	1,500,000	713,250	2,213,250
2012-2016	8,100,000	2,866,950	10,966,950
2017-2021	9,310,000	1,584,150	10,894,150
2022-2024	<u>4,865,000</u>	<u>250,950</u>	<u>5,115,950</u>
TOTALS	<u>\$29,285,000</u>	<u>\$ 8,686,800</u>	<u>\$ 37,971,800</u>

Note Payable

The note payable consists of an amount due to one member entity related to the land purchase in 2002. At the inception of the note, the member entity had a 14.87% interest in the land and Central Valley had an 85.13% interest. The note payable bears interest at 6%, is payable in monthly installments, and has a term of ten years, beginning on September 1, 2002. Beginning on September 1, 2002, and each year thereafter on the anniversary of the beginning date, Central Valley will acquire 1.487% of the interest of the member in the land until all of the member's interest is transferred to Central Valley at the end of the term of the note.

	<u>2006</u>
Total note payable - member	\$ 211,528
Less current portion	<u>(33,471)</u>
Note payable - member, long-term portion	<u>\$ 178,057</u>

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. LONG-TERM DEBT (CONTINUED)

Presented below is a summary of note payable payment requirements to maturity by years:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 33,471	\$ 11,781	\$ 45,252
2008	35,535	9,717	45,252
2009	37,727	7,525	45,252
2010	40,054	5,198	45,252
2011	42,524	2,728	45,252
Thereafter	<u>22,217</u>	<u>390</u>	<u>22,607</u>
 TOTAL	 <u>\$ 211,528</u>	 <u>\$ 37,339</u>	 <u>\$ 248,867</u>

Changes in Long-Term Debt

Long-term debt activity for the year ended December 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Revenue bonds	\$ 30,500,000	\$ 85,000	\$ (1,300,000)	\$ 29,285,000	\$ 1,340,000
Notes payable - member	<u>243,055</u>	<u>—</u>	<u>(31,527)</u>	<u>211,528</u>	<u>33,471</u>
 TOTAL LONG-TERM DEBT	 <u>\$ 30,743,055</u>	 <u>\$ 85,000</u>	 <u>\$ (1,331,527)</u>	 <u>\$ 29,496,528</u>	 <u>\$ 1,373,471</u>

Total accrued interest on long-term debt for the year ended December 31, 2006 was \$586,934, all of which is included on the balance sheet as due from members.

9. GROUND LEASE AGREEMENT

During 1991, the Facility entered into an agreement to lease approximately forty acres of real property, which has been assigned to a Utah limited partnership for the purpose of constructing and operating a golf practice facility. The lease is for an initial term of thirty years. During the years ended December 31, 2006 and 2005 the Facility received net lease payments of \$53,906 and \$31,979, respectively, under terms of the lease. The original lease calls for fixed yearly payments of \$62,756 (adjusted for the consumer price index) plus a percentage of gross receipts through the end of the lease. The lease contains an escalation clause based on the consumer price index. Percentage rental payments are also required. During 2006, an amendment to the ground lease was signed. Under the amended agreement, the partnership was required to make monthly payments of \$5,000 to the facility until July 1, 2006. Beginning August 1, 2006, annual rent of \$71,875 was payable in monthly installments. The rent payment is subject to annual increases each year starting August 1, 2006 through July 31, 2014. If, under the amended agreement, the partnership is unable to make a payment but makes a minimum of six monthly payments of \$5,000 in each fiscal year of the amended lease, the partnership will be granted a maximum of five years, beginning August 1, 2014, to pay any unpaid monthly payment, plus interest of 7% per annum on the unpaid payments. As of December 31, 2006, the partnership owed monthly payments totaling \$32,969 plus accrued interest of \$1,172. Due to the uncertainty of the Facility's ability to collect these balances, the amounts are not included in the balance sheet.

CENTRAL VALLEY WATER RECLAMATION FACILITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. GOLF COURSE MANAGEMENT AGREEMENT

On April 29, 1999, the Facility entered into an agreement with a Utah limited liability company (manager) for the management and operation of the golf course. According to the terms of the agreement, the Facility is responsible for the payment of a management fee equal to 5% of gross revenues. In addition, the Facility is to pay 15% of the operating profits, to the extent available, to the manager. During the years ended December 31, 2006, and 2005 the Facility paid management fees of \$8,600 and \$11,850, respectively. The agreement was for five years beginning in August 2001 and continues on a month-to-month basis.

SUPPLEMENTAL INFORMATION

CENTRAL VALLEY WATER RECLAMATION FACILITY

SCHEDULE I

SCHEDULE OF CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2006

	Balance December 31, 2005	Capital Contributions	Depreciation
Original Facility:			
Cottonwood Improvement District	\$ 9,687,950	\$ 284,659	\$ 787,938
Salt Lake City Suburban Sanitary District #1	12,349,736	372,709	1,031,658
Granger-Hunger Improvement District	10,187,102	307,279	850,549
Kearns Improvement District	2,911,680	86,958	240,703
Murray City	4,056,310	129,347	358,031
South Salt Lake City	2,961,872	89,024	246,419
Taylorsville-Bennion Improvement District	6,115,180	184,667	511,159
Environmental Protection Agency	27,216,219	-	928,243
Utah Bureau of Radiation Control	1,460,324	-	48,855
	<u>76,946,373</u>	<u>1,454,643</u>	<u>5,003,555</u>
New Expansion:			
Cottonwood Improvement District	1,037,324	-	49,835
Salt Lake City Suburban Sanitary District #1	3,346,199	-	160,759
Granger-Hunter Improvement District	3,609,416	-	173,405
Kearns Improvement District	3,400,392	-	163,363
Murray City	969,401	-	46,572
South Salt Lake City	355,253	-	17,067
Taylorsville-Bennion Improvement District	1,450,199	-	69,671
	<u>14,168,184</u>	<u>-</u>	<u>680,672</u>
Facility Enhancements:			
Cottonwood Improvement District	75,652	-	2,440
Salt Lake City Suburban Sanitary District #1	103,455	-	3,337
Granger-Hunter Improvement District	84,497	-	2,726
Kearns Improvement District	47,036	-	1,517
Murray City	33,472	-	1,080
South Salt Lake City	21,286	-	687
Taylorsville-Bennion Improvement District	52,129	-	1,682
	<u>417,527</u>	<u>-</u>	<u>13,469</u>
Digesters:			
Cottonwood Improvement District	1,018,484	6,638	43,272
Salt Lake City Suburban Sanitary District #1	2,543,045	16,576	108,045
Granger-Hunter Improvement District	3,172,474	20,678	134,787
Kearns Improvement District	3,601,169	23,472	153,001
Murray City	795,335	5,184	33,791
South Salt Lake City	174,517	1,138	7,415
Taylorsville-Bennion Improvement District	1,359,541	8,861	57,762
	<u>12,664,565</u>	<u>82,547</u>	<u>538,073</u>
Secondaries:			
Cottonwood Improvement District	-	543,931	16,998
Salt Lake City Suburban Sanitary District #1	-	1,730,170	54,068
Granger-Hunter Improvement District	-	1,901,601	59,425
Kearns Improvement District	-	1,963,512	61,360
Murray City	-	510,764	15,961
South Salt Lake City	-	197,465	6,171
Taylorsville-Bennion Improvement District	-	789,355	24,667
	<u>-</u>	<u>7,636,798</u>	<u>238,650</u>
TOTAL	\$ <u>104,196,649</u>	\$ <u>9,173,988</u>	\$ <u>6,474,419</u>

Gain on Disposal of Equipment	Golf Course	Purchase of Land	Balance December 31, 2006
\$ 439	\$ (1,671)	\$ (31,527)	\$ 9,151,912
574	(2,188)	-	11,689,173
474	(1,804)	-	9,642,502
134	(510)	-	2,757,559
199	(759)	31,527	3,858,593
137	(523)	-	2,804,091
285	(1,084)	-	5,787,889
-	-	-	26,287,976
-	-	-	1,411,469
<u>2,242</u>	<u>(8,539)</u>	<u>-</u>	<u>73,391,164</u>
-	-	-	987,488
-	-	-	3,185,440
-	-	-	3,436,011
-	-	-	3,237,030
-	-	-	922,829
-	-	-	338,186
-	-	-	1,380,528
<u>-</u>	<u>-</u>	<u>-</u>	<u>13,487,512</u>
-	-	-	73,212
-	-	-	100,118
-	-	-	81,771
-	-	-	45,519
-	-	-	32,392
-	-	-	20,599
-	-	-	50,447
<u>-</u>	<u>-</u>	<u>-</u>	<u>404,058</u>
-	-	-	981,851
-	-	-	2,451,575
-	-	-	3,058,365
-	-	-	3,471,640
-	-	-	766,728
-	-	-	168,240
-	-	-	1,310,640
<u>-</u>	<u>-</u>	<u>-</u>	<u>12,209,039</u>
-	-	-	526,933
-	-	-	1,676,102
-	-	-	1,842,176
-	-	-	1,902,153
-	-	-	494,803
-	-	-	191,294
-	-	-	764,687
<u>-</u>	<u>-</u>	<u>-</u>	<u>7,398,148</u>
<u>\$ 2,242</u>	<u>\$ (8,539)</u>	<u>\$ -</u>	<u>\$ 106,889,921</u>

CENTRAL VALLEY WATER RECLAMATION FACILITY

SCHEDULE II

SCHEDULE OF REVENUES AND EXPENSES
(EXCLUDING DEPRECIATION) - GOLF COURSE

YEAR ENDED DECEMBER 31, 2006

	<u>2006</u>
REVENUES	<u>\$ 280,056</u>
EXPENSES:	
Salaries and wages	161,754
Payroll taxes	20,268
Advertising	3,038
Bank charges	5,186
Utilities	9,403
Insurance	17,609
Legal and accounting	550
Miscellaneous	1,745
Repairs and maintenance	10,499
Supplies	43,629
Telephone	3,010
Travel	3,304
Management fee	<u>8,600</u>
TOTAL EXPENSES	<u>288,595</u>
NET (LOSS)	<u>\$ (8,539)</u>



PINNOCK, ROBBINS, POSEY & RICHINS

Certified Public Accountants • A Professional Corporation

Ronald D. Robbins, CPA
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James R. Beaudoin, PFS, CFP, CPA
Wade K. Watkins, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To The Board of Directors
Central Valley Water Reclamation Facility
Salt Lake City, Utah

We have audited the financial statements of Central Valley Water Reclamation Facility as of and for the year ended December 31, 2006, and have issued our report thereon dated March 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Central Valley Water Reclamation Facility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Facility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Facility's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Valley Water Reclamation Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Directors, and applicable federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

Pinnock, Robbins, Posey & Richins

March 14, 2007



PINNOCK, ROBBINS, POSEY & RICHINS

Certified Public Accountants • A Professional Corporation

Ronald D. Robbins, CPA
David T. Posey, CPA
Roger O. Richins, CPA
James R. Beaudoin, PFS, CFP, CPA
Wade K. Watkins, CPA

INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

To the Board of Directors
Central Valley Water Reclamation Facility

We have audited the accompanying financial statements of Central Valley Water Reclamation Facility, for the year ended December 31, 2006 and have issued our report thereon dated March 14, 2007. Our audit included test work on the Facility's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements

Budgetary Compliance
Other Compliance Requirements

The Facility did not receive any major or nonmajor State grants during the year ended December 31, 2006.

The management of Central Valley Water Reclamation Facility is responsible for the Facility's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Facility's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Central Valley Water Reclamation Facility, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2006.

This report is intended for the use of Central Valley Water Reclamation Facility's Management, Board of Directors, and applicable federal and state agencies. However, this report is a matter of public record and its distribution is not limited.

Pinnock, Robbins, Posey & Richins

March 14, 2007